

nationalgrid

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The Honorable Joseph Desmond
Chairman
California Energy Commission
1516 Ninth Street MS32
Sacramento, CA 95814

DOCKET	
04-IEP-1K	
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**Re: Comments on the Draft 2005 Integrated Energy Policy Report and the
Draft Strategic Transmission Investment Plan
(Docket # 04-1EP-1K Committee Draft Document Hearings)**

Dear Chairman Desmond:

National Grid is an energy delivery company that owns and operates over 9,000 miles of high voltage transmission in the Northeast US and all of the high voltage transmission system in England and Wales (over 5,000 miles). National Grid also acts as the system operator for the entire UK electric and gas transmission systems. In addition, we have significant global experience in constructing independent transmission lines, including the construction of the Quebec to New England high voltage transmission line in the early 1990s, as well as the current "Basslink" project in Australia, that will be commissioned in early 2006. As a result, National Grid is uniquely positioned to discuss the benefits of, and also the potential impediments to, energy delivery on a regional basis.

National Grid is a firm advocate of the independent transmission business model, not being tied to the fortune of any particular generation source or even type of generation. National Grid believes there is clear evidence that this model provides the best chance for new transmission infrastructure to be built and maintained, and gives consumers and market participants the confidence that a robust transmission infrastructure is accessible and reliable for all interested parties. National Grid further believes that its experience and perspective may prove of assistance as infrastructure alternatives are evaluated and implemented, and would be pleased to participate in the development, installation and operation of the solutions which the Commission and so many other interested parties are working hard to bring about.

It is widely acknowledged that the US has suffered from an acute underinvestment in transmission over the last few decades. Numerous academic reports, in addition to work led by the Federal Energy Regulatory Commission (FERC), highlight the strategic consequences of this underinvestment and consider ways of encouraging appropriate levels of investment. Federal leaders have also recognized the importance of this issue in the adoption and implementation of the Energy Policy Act of 2005 (Public Law 109-58).

National Grid has reviewed the Draft 2005 Integrated Energy Policy Report and the Strategic Transmission Investment Plan. National Grid commends the Commission in its efforts to ensure that adequate, affordable and environmentally responsible energy supplies are made available to California and is fully in support of the various suggestions made consistent with improving transmission planning and implementation. As an independent energy delivery company National Grid has no interest in favoring any particular location or type of generation but is, of course, vitally interested in ensuring that the power that California needs will be delivered in the most efficient and reliable manner, and in the time frames needed by the consumers in California. The efforts of the Commission in giving potential generators clarity with regard to California's preferences and potentials are certainly appreciated.

There are many constituencies within California better qualified to comment on details of the Commission's draft reports that focus on issues within California, and National Grid compliments the California regulatory bodies and incumbent utilities for all of their work within California to optimize the energy situation. National Grid proposes instead to focus on the more regional (and in some cases national) aspects of the report.

Need for additional energy supplies

As the report highlights, over the next 15 years California will be faced with rapidly rising population growth within the same period that uneconomic and/or environmentally damaging older generation plants will have to be retired. The scale of this challenge is beyond that which any other state is likely to face, and is made even more challenging given that natural gas fired generation already provides in the order of 50% of California's energy needs. Despite the remarkable success achieved by California's power community and its consumers in reducing per capita usage, the enviable development being enjoyed by the state requires an ever-improving mix of conservation and environmentally sensitive power development.

Without a doubt, some of the solution will be found within California, but the scale of the challenge is such that economic and environmentally responsible regional resources will also need to be considered. There are a number of available fuel sources and geographic regions where these essential resources may be developed. The variety of sources to be opened by the Frontier Project, as recently announced by the Governors of Wyoming, Utah, Nevada and California, are examples readily at hand.

We believe that accessing remote generation is primarily a challenge of regional transmission, as there are strong indications that the market is prepared to respond with the necessary generation facilities.

Like all investments in energy infrastructure, investments in transmission and generation are both capital and resource intensive. To be economically and environmentally prudent on a whole-life basis they must be robust against a range of scenarios, including evolving public policy. By their nature all investments in this sector require a tradeoff among economic, reliability and environmental pressures – there is no panacea to satisfy every constituent. In identifying where to encourage and effectuate investment we believe that government and developers would be well served to:

- (i) **Think holistically.** Electricity does not recognize state boundaries. While appreciating a healthy desire for energy self-sufficiency and homeland security issues, the reality is California and other states in the region will be best served if they work with their neighbors to identify, access and share the optimum blend of resources across the region. In addition, when considering the overall performance of generators (environmental, economic, load shape, etc.) it may be appropriate to consider aggregating projects, contracts or delivery methods (e.g. remote wind and clean coal delivered over the Frontier or similar lines) rather than focusing on the performance of individual plants.
- (ii) **Focus on time not timing.** It is always easier to defer a decision to invest because a superior solution appears to be on the horizon. To position the state at the cutting edge (but most definitely not the *bleeding* edge) government should be supportive of developers who are going broadly in the right direction. Waiting for the *perfect* solution tends to incur a significant (and at times an absolute) opportunity cost in both economic and environmental terms. In the context of the 2005 IEPR it may be prudent to support commercialization of today's clean fossil fuel burning technologies, particularly if situated near or delivered with power generated with other desirable sources, while working diligently to develop environmentally desirable technologies such as IGCC over the years to come. California's growth is not expected to abate any time soon; as today's infant technologies attain commercial practicality over time they will certainly have their place in the energy portfolio available to California in the decades to come.
- (iii) **Identify when not to rely on costly incremental investments.** Encouraging investment (in plant or contracts) over short time horizons tends to perpetuate the status quo and increase volatility in price and performance, while reducing options for future development. Within the context of your IEPR, National Grid advocates encouraging longer term power contracts – only by providing a degree of income certainty will developers be bold enough to invest in delivering today's more challenging or capital intensive technologies that are most likely to fulfill in all respects the state's energy goals. Longer term certainty will facilitate delivery of sufficient energy produced at an overall emission level within the state's objectives, and provide developers of generation and delivery systems the experience and

the capital creation to progress technologies like IGCC and achieve even further success in improving our environment.

- (iv) **Look at the net gain.** While not losing sight of your ambitious and admirable strategic goals, government should support near and mid-term or tactical wins. For example, by facilitating the development of remote generation and connecting this to the California market there may be an opportunity to advance the retirement of the plants referred to in Appendix A of your report, thereby improving emission quality even further, and minimize the need to build additional gas plants as load cliffs approach that would, of course, have the pernicious effect of increasing the state's dependency on and vulnerability to gas.

As indicated above, as an independent energy delivery company National Grid does not have a stake in any of the fuel sources or generation technologies from which California must choose. We do believe, however, that increased transmission capacity, both within the state and intrastate, should be a facilitator for delivering California's challenging energy goals. Evidence from markets around the world supports the arguments that regulatory certainty and prudent investments ensure economic and sustainable energy supplies. Too often an insistence on a not yet achievable *perfect* can prevent the attainment of an achievable *very good*. It appears to National Grid that California and its neighbors have at hand the opportunity to achieve a *very, very good* while at the same time accelerating the development of the *perfect* or *near perfect*; the need to attain some *good* has been apparent and is becoming critical.

We applaud the efforts of the Commission and all Californians to resolve these issues, and stand ready to assist in identifying and implementing appropriate solutions.

Sincerely yours,

A handwritten signature in cursive script, reading "Paul J. Halas". The signature is written in black ink and is positioned below the "Sincerely yours," text.